

# **The Revaluation Experience 2007-2013**

Presented to the Special Commission  
to Study Property Revaluation  
October 8<sup>th</sup>, 2013

# 2006 to 2013 Assessments & Tax Bills

## Sample Properties

		2006		2007		2010		2013	
	Neighborhood	Assessment	Tax Bill	Assessment	Tax Bill	Assessment	Tax Bill	Assessment	Tax Bill
CITYWIDE	n/a	---	---	\$302,872	\$3,459	\$211,005	\$3,347	\$184,545	\$3,552
18 Savoy	Blackstone	\$267,500	\$4,043	\$314,500	\$3,592	\$283,200	\$4,302	\$279,400	\$5,378
146 Warrington	Washington Park	\$155,000	\$2,343	\$228,900	\$2,614	\$122,900	\$1,867	\$122,200	\$2,352
47 Vinton	Federal Hill	\$186,500	\$2,819	\$289,700	\$3,308	\$187,000	\$2,841	\$153,900	\$2,963
45 Radcliffe	Elmhurst	\$154,200	\$2,331	\$215,800	\$2,464	\$131,900	\$2,004	\$129,300	\$2,489
365 Union	Silver Lake	\$170,000	\$2,570	\$246,000	\$2,809	\$143,000	\$2,172	\$123,700	\$2,381

# Effects of 2007 Revaluation

## Sample Properties

	2006 (rate=30.23)		2007 (rate=22.84)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	\$267,500	\$4,043	\$314,500	\$3,592
			18%	-11%
146 Warrington	\$155,000	\$2,343	\$228,900	\$2,614
			48%	12%
47 Vinton	\$186,500	\$2,819	\$289,700	\$3,308
			55%	17%
45 Radcliffe	\$154,200	\$2,331	\$215,800	\$2,464
			40%	6%
365 Union Ave.	\$170,000	\$2,570	\$246,000	\$2,809
			45%	9%

# Effects of 2010 Revaluation

## Sample Properties

	2009 (rate=24.21)		2010 (rate=30.38)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	\$314,500	\$3,807	\$283,200	\$4,302
			-10%	13%
146 Warrington	\$228,900	\$2,771	\$122,900	\$1,867
			-46%	-33%
47 Vinton	\$289,700	\$3,507	\$187,000	\$2,841
			-35%	-19%
45 Radcliffe	\$215,800	\$2,612	\$131,900	\$2,004
			-39%	-23%
365 Union Ave	\$246,000	\$2,978	\$143,000	\$2,172
			-42%	-27%

# Effects of 2013 Revaluation

## Sample Properties

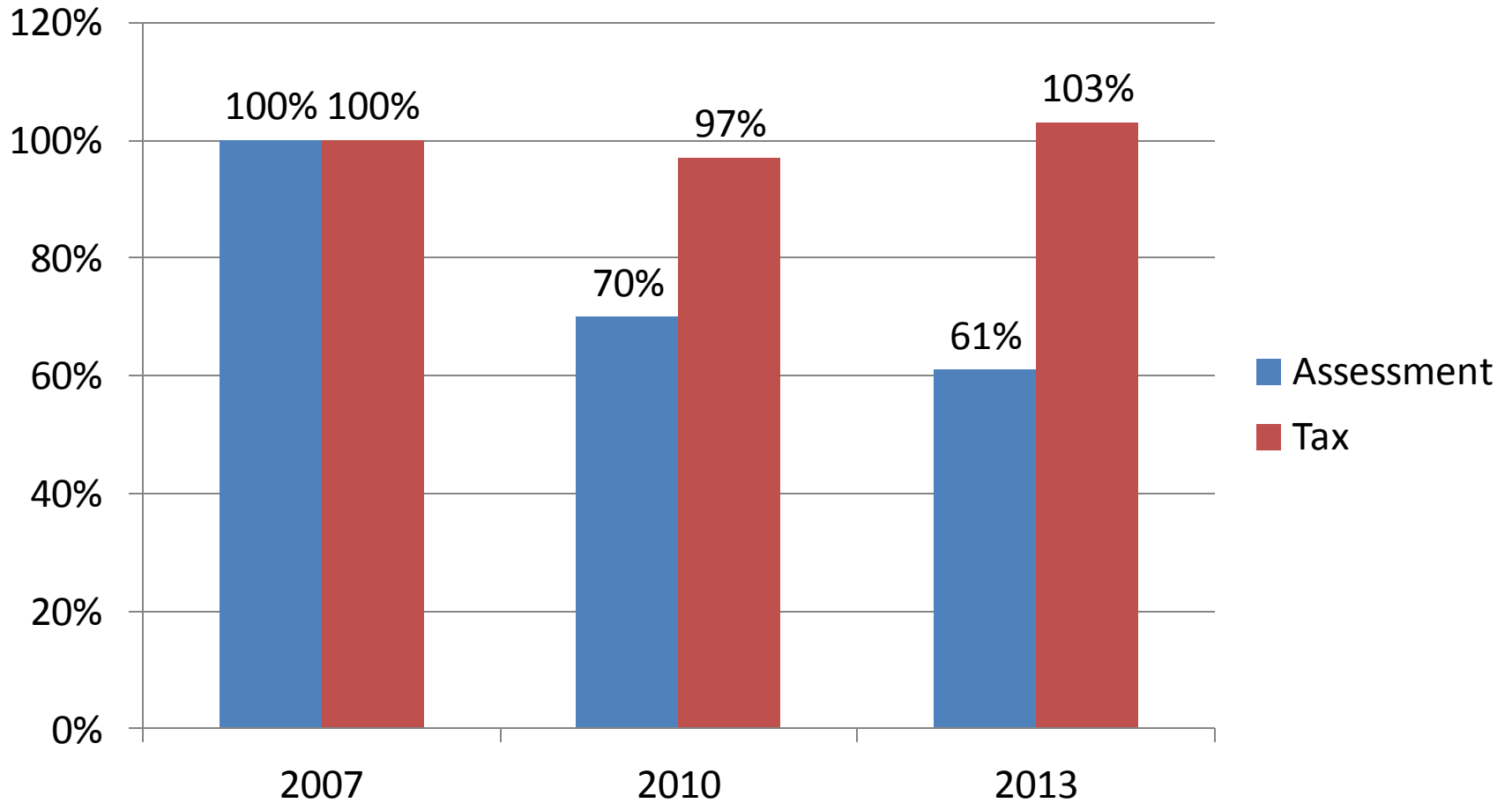
	2012 (rate=31.89)		2013 (rate=19.25 effective)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	\$283,200	\$4,516	\$279,400	\$5,378
			-1%	19%
146 Warrington	\$122,900	\$1,960	\$122,200	\$2,352
			-1%	20%
47 Vinton	\$187,000	\$2,982	\$153,900	\$2,963
			-18%	-1%
45 Radcliffe	\$131,900	\$2,103	\$129,300	\$2,489
			-2%	18%
365 Union	\$143,000	\$2,280	\$123,700	\$2,381
			-13%	4%

# 2006 vs. 2013

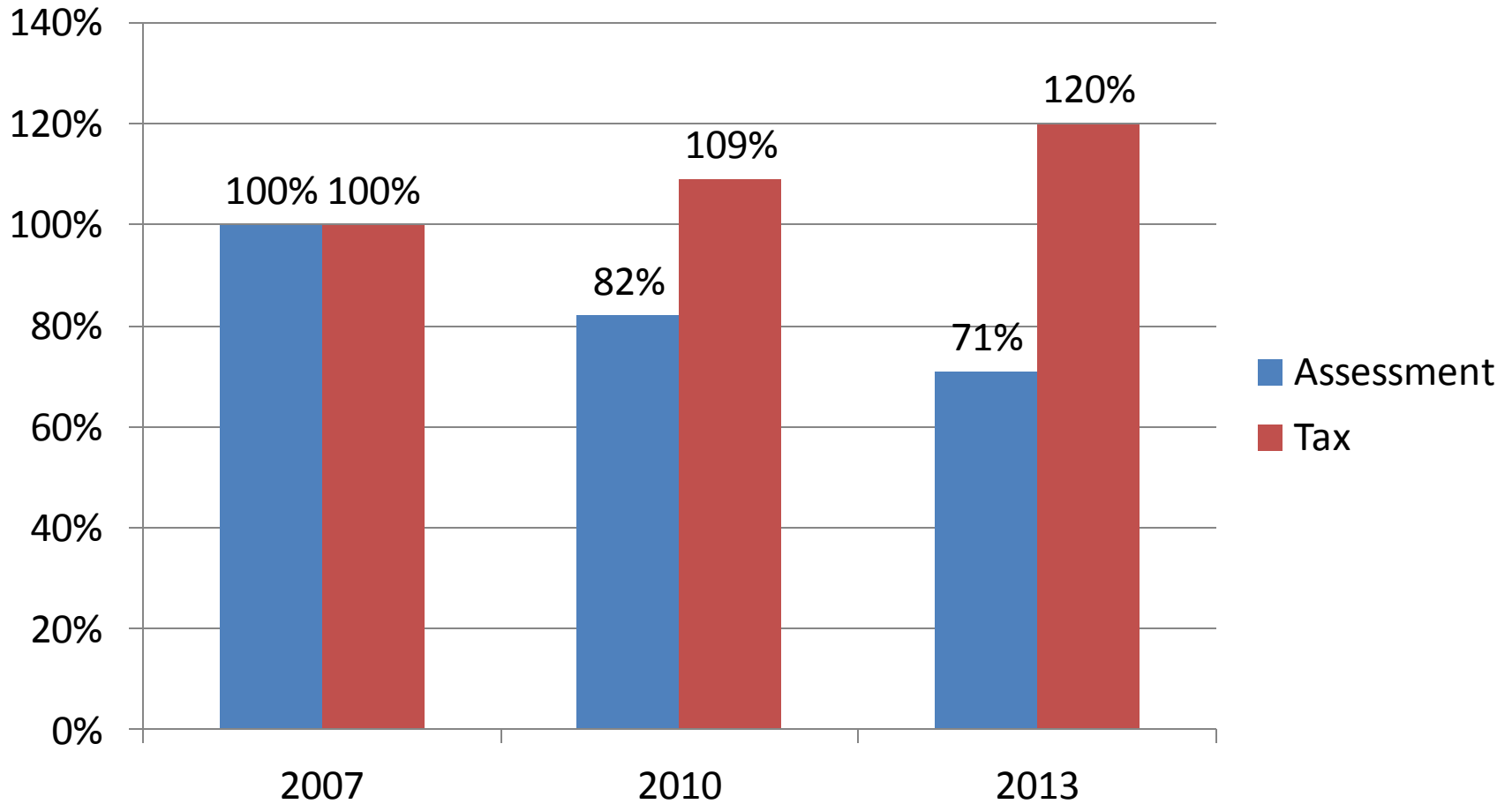
## Sample Properties

	2006 (rate=30.23)		2013 (rate=19.25 effective)	
	Assessment	Tax Bill	Assessment	Tax Bill
18 Savoy	\$267,500	\$4,043	\$279,400	\$5,378
			4%	33%
146 Warrington	\$155,000	\$2,343	\$122,200	\$2,352
			-21%	0.4%
47 Vinton	\$186,500	\$2,819	\$153,900	\$2,963
			-17%	5%
45 Radcliffe	\$154,200	\$2,331	\$129,300	\$2,489
			-16%	7%
365 Union Ave	\$170,000	\$2,570	\$123,700	\$2,381
			-27%	-7%

# Assessment vs. Tax Bill Change Citywide

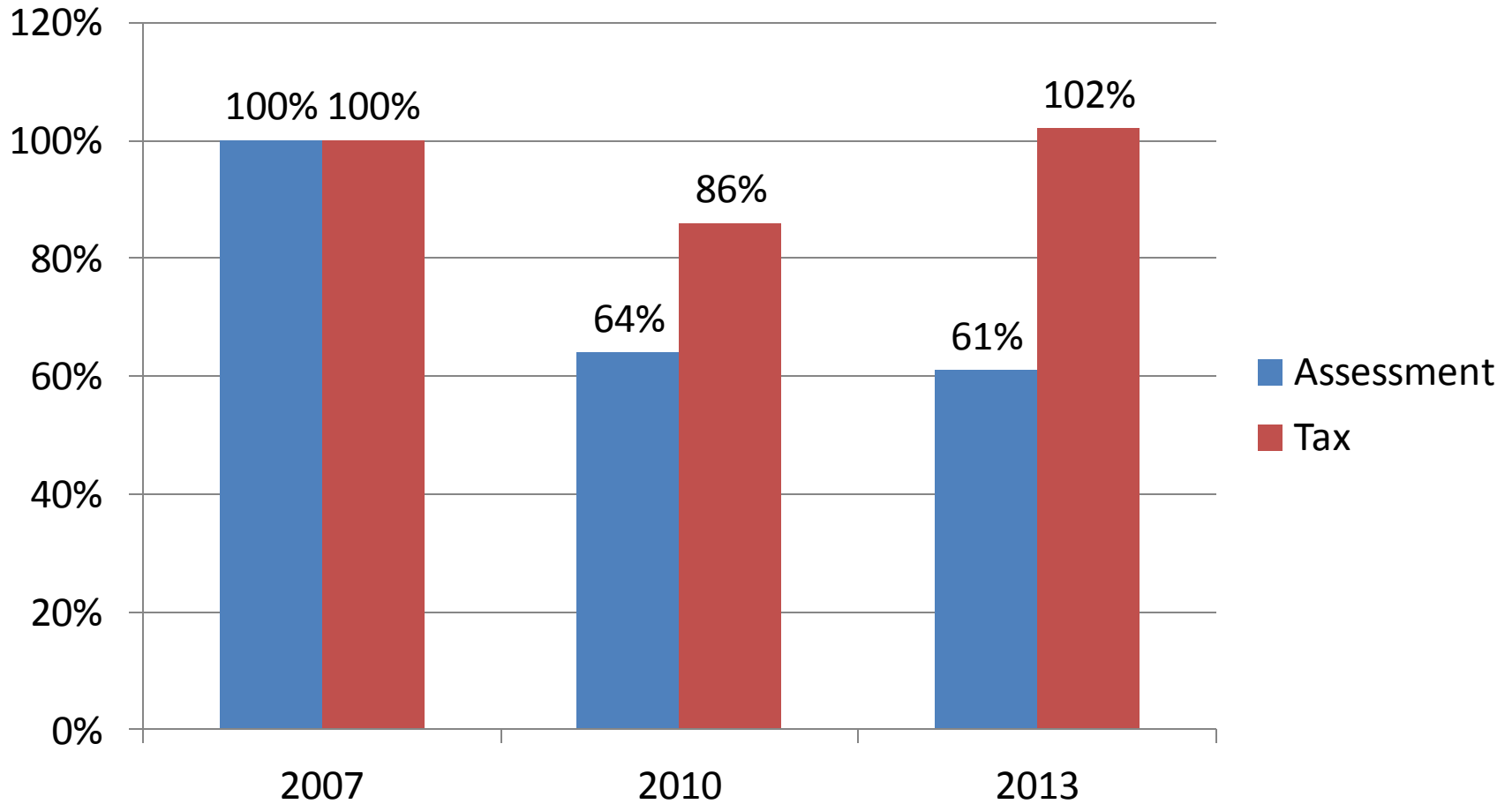


# Assessment Change vs. Tax Bill Change Fox Point

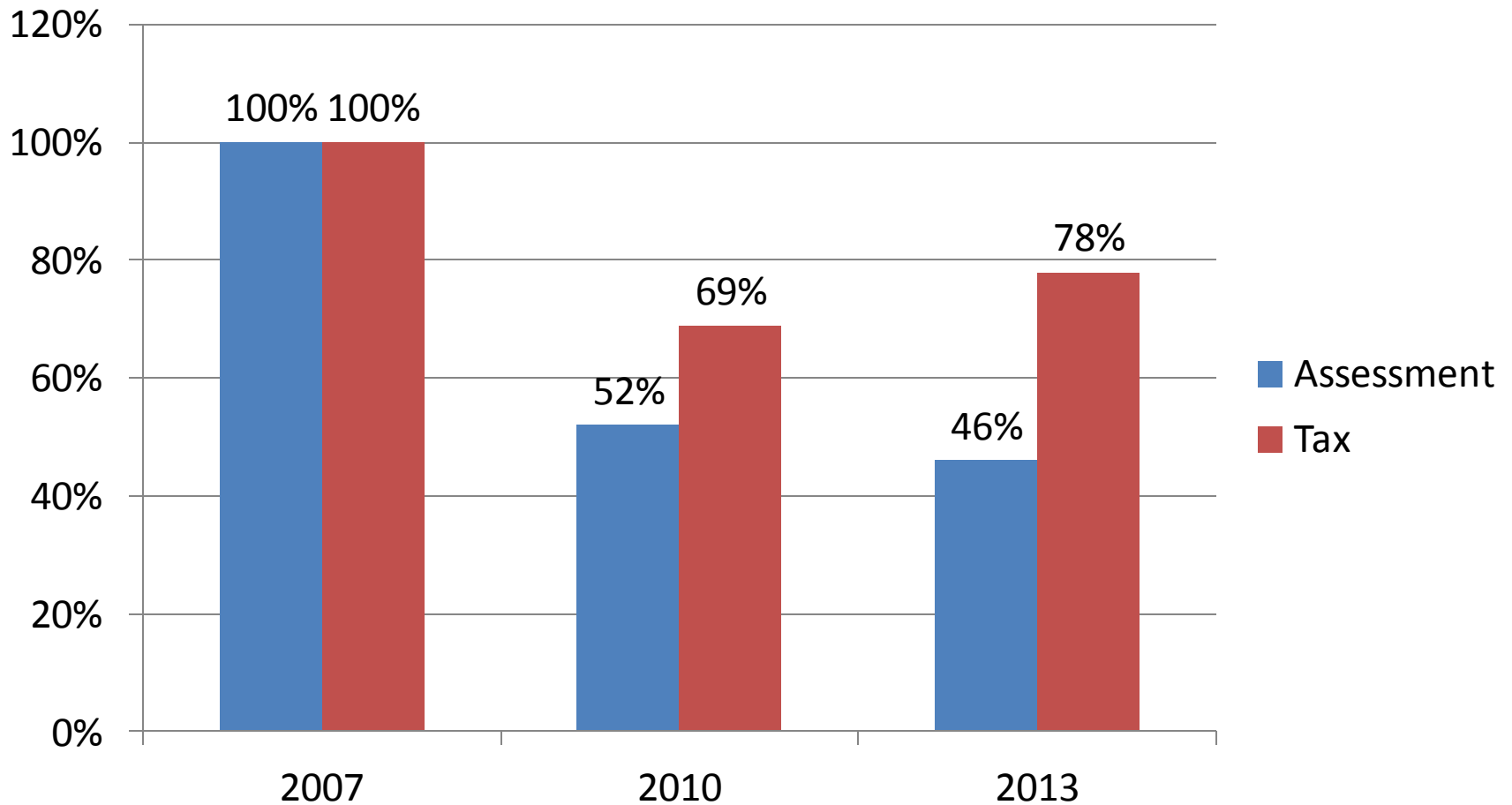




# Assessment Change vs. Tax Bill Change Elmhurst



# Assessment Change vs. Tax Bill Change Washington Park



# **Comparing Revaluation Options**

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October 22<sup>nd</sup>, 2013

# Rhode Island's Reval Process

- History

- (Pre-1979) State had no requirements for revaluation frequency
  - Some municipalities went decades between revaluations.
- (1979-1997) The Property Tax and Fiscal Disclosure Act
  - Required that each city and town undertake a complete reappraisal of all property at least once every ten years.
- (1997-present) RIGL 44-5-11.5 & 11.6
  - 9 Year - 3/3/3 Model –
    - One physical followed by two statistical revaluations.
  - Legislative findings:
    - “Infrequent revaluations translate into disparities in property tax burden between types and classes of property within and among cities and towns.”
    - “It is the intent of the general assembly to ensure that all taxpayers in Rhode Island are treated equitably. The more frequent the revaluation, the greater the equity within and among jurisdictions.”

# Rhode Island's Reval Process

- Recent Proposals –
  - In 2008, three bills dealing with RI's revaluation frequency were introduced.
    - 10/5 – 10 year physical, with a statistical after 5 years.
    - 8/4 – 8 year physical, with a statistical after 4 years.
    - 12/4/4 – 12 year physical, with two statistical at 4 year intervals.
  - RIPEC endorsed “8 /4” legislation:
    - “This legislation would reduce the cost of two statistical updates in a six year period, but would still provide for a timely comprehensive revaluation.”

# Sample Revaluation Frequency by State

State	Reval Frequency	Notes:
Colorado	2 years	Physical reval not required
Connecticut	5 years	Physical reval done at least every 12 years
DC	Annually	Physical reval only of portion of properties
Massachusetts	3 years	Many cities opt to do statistical reval annually
Michigan	Annually	Physical reval not required
New Hampshire	5 years	Only physical reval required
Oregon	Annually	Physical reval not required
Pennsylvania	No requirement	
Washington	4 years	Only physical reval required
Wisconsin	5 years	Only physical reval required

# Other Assessment Models

- Four models used around the U.S. that attempt to “smooth over” the issues caused by revaluations.
  - Assessment Phase-Ins
  - “Share of the Pie” Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model

# Assessment Phase-In Programs

- Basics
  - Difference between old and new assessments applied to tax bill slowly over years between revaluations.
  - Example:

2012 Assessed Value	2013 Assessed Value	2013 Taxable Value	2014 Taxable Value	2015 Taxable Value
\$100,000	\$130,000	\$110,000	\$120,000	\$130,000
\$250,000	\$340,000	\$280,000	\$310,000	\$340,000
\$150,000	\$120,000	\$140,000	\$130,000	\$120,000



# Assessment Phase-In Programs

- Maryland –
  - Three years between revaluations.
  - Phased in equally over three years (33% per year).
- Montana –
  - Six years between revaluations.
  - Phased in equally over six years (16.67% per year).
- Connecticut –
  - State gives municipalities phase-in option.
  - Five years between revaluations.
  - Assessments must be phased-in by at least 25% per year.

# Imaginary City Revaluation Without Phase-In

Imagine a city with only three properties and needs to raise \$20,000 in property tax revenue.

Property	2012 Assessment	2012 Rate	2012 Levy
A	\$100,000	\$40/thousand	\$4,000
B	\$250,000	\$40/thousand	\$10,000
C	\$150,000	\$40/thousand	\$6,000
TOTAL:	\$500,000		\$20,000

Because the total assessment increased, to hold the levy constant, the rate must decrease.

Property	2013 Assessment	2013 Rate	2013 Levy
A	\$130,000	\$33.90/thousand	\$4,407
B	\$340,000	\$33.90/thousand	\$11,525
C	\$120,000	\$33.90/thousand	\$4,068
TOTAL:	\$590,000		\$20,000

# Imaginary City Revaluation With Phase-In

Property	2012 Assessment	2012 Rate	2012 Levy
A	\$100,000	\$40/thousand	\$4,000
B	\$250,000	\$40/thousand	\$10,000
C	\$150,000	\$40/thousand	\$6,000
TOTAL:	\$500,000		\$20,000

With the phase-in, the total assessment increased, but not as much as it would have without the phase-in, resulting in a rate lower than the previous year but higher than if there had been no phase-in.

Property	2013 Taxable Value	2013 Rate	2013 Levy
A	\$110,000	\$37.74/thousand	\$4,151
B	\$280,000	\$37.74/thousand	\$10,567
C	\$140,000	\$37.74/thousand	\$5,283
TOTAL:	\$530,000		\$20,001

# Imaginary City Revaluation Phase-In vs. No Phase-In

Replicating the same type of analysis for the next two tax years and continuing to hold the total levy constant, gives the following results:

Tax Bills Without Phase-In				
<u>Property</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
A	\$4,000	\$4,407	\$4,407	\$4,407
B	\$10,000	\$11,525	\$11,525	\$11,525
C	\$6,000	\$4,068	\$4,068	\$4,068

Tax Bills With Phase-In				
<u>Property</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
A	\$4,000	\$4,151	\$4,286	\$4,407
B	\$10,000	\$10,567	\$11,071	\$11,525
C	\$6,000	\$5,283	\$4,643	\$4,068

# “Share of the Pie” Approach

- Divide all properties into classes and limit each class’s growth as a proportion of the tax base.
  - Colorado –
    - Residential portion of statewide tax base permanently held at 45%.
  - New York City & Nassau County –
    - Residential portion of tax base taxed at lower percentage of fair market value.
- Doesn’t directly address revaluation, but does increase predictability.

# “Share of the Pie” Approach

In New York City, all properties are divided into one of four classes:

- Class 1 One- to three-family structures, vacant residential land, and small co-op and condominium apartment buildings
- Class 2 Residential rentals, co-ops, and condos
- Class 3 Utilities
- Class 4 All commercial and manufacturing properties in the city, including major office buildings

Fiscal Year 2008 Values and Taxes				
	<u>Class 1</u>	<u>Class 2</u>	<u>Class 3</u>	<u>Class 4</u>
TAX LEVY (\$)	\$2.1 billion	\$5.3 billion	\$1.0 billion	\$5.9 billion
PORTION OF CITYWIDE TAX LEVY	15%	37%	7%	41%
MARKET VALUE	\$427 billion	\$176 billion	\$20 billion	\$174 billion
PORTION OF CITYWIDE MARKET VALUE	54%	22%	2%	22%

Source: City of New York, Department of Finance, Office of Tax Policy

# Levy Limit in Revaluation Year

- Some states and municipalities have instituted caps on the amount the property tax levy can be increased in a revaluation year.
- Mainly in places with longer periods in between revaluations.
- Seeks to limit the impact of large swings in assessments.
- RI already has 4% levy cap every year from Paiva-Weed legislation passed in 2007.

# Levy Limit in Revaluation Year

## Delaware Example:

- Revenue increase in reval year limited to 15%
  - Total countywide property tax revenue cannot exceed 15% of the revenue from the year before the revaluation.
  - Does not include increases caused by new construction.
- Counties choose when to reval
  - No state requirement on frequency.
- “Truth in Taxation”
  - Taxpayers must be informed of both the new rate and the “Roll Back Rate,” defined as the rate which would hold revenue constant.
  - Adds hurdles making it harder for legislatures to raise rate above “Roll Back Rate.”



# The California Model

- Proposition 13 (1978)
  - CA voters approved a measure that ended requirement for periodic revaluations.
  - Taxable values increase with the CPI, but not by more than 2% per year.
  - If market value drops below taxable value, market value is used.
  - Change in ownership triggers reassessment at market value; Assessment “pops up” to the new purchase price.
- Similar laws on the books in:
  - Arkansas, Arizona, Florida, Maryland, Minnesota, New Mexico, Oklahoma, Oregon, and Texas.
  - Illinois offers municipalities the option to cap assessment growth at 7% per year.
  - New York City and Nassau County have limitations of residential assessment growth.

# Examples of Horizontal Inequity in The California Model

Over time, identical homes can have very different assessments, and therefore pay very different tax bills, depending on when they were last sold.

Year Sold	1978 Assessment	1990 Mkt. Value	1990 Assessment	2005 Mkt. Value	2005 Assessment	2005 Tax
1978	\$100,000	\$275,903	\$126,824	\$761,226	\$170,689	\$1,707
1990	\$100,000	\$275,903	\$275,903	\$761,226	\$371,329	\$3,713
2005	\$100,000	\$275,903	\$126,824	\$761,226	\$761,226	\$7,612

Source: Lincoln Land Institute, 2008

# Imaginary City Under California Model

- Below we see how using the California Model would affect our imaginary city and its tax base.

Property	2012 Assessment	2013 Market Value	2013 Taxable Value
A	\$100,000	\$130,000	\$101,700
B	\$250,000	\$340,000	\$254,250
C	\$150,000	\$120,000	\$120,000
Total	\$500,000	\$590,000	\$475,950

# Imaginary City Under California Model

- Using 2012 as a base year, holding the total levy constant, and assuming no property changed owners.

Tax Bills Without California Model		
<u>Property</u>	<u>2013 Assessment</u>	<u>2013 Tax (rate=\$30.39)</u>
A	\$130,000	\$4,407
B	\$340,000	\$11,525
C	\$120,000	\$4,068
Total	\$590,000	\$20,000

Tax Bills With California Model		
<u>Property</u>	<u>2013 Taxable Value</u>	<u>2013 Tax (rate=\$42.02)</u>
A	\$101,700	\$4,273
B	\$254,250	\$10,684
C	\$120,000	\$5,042
Total	\$475,950	\$20,000

# Recap/Discussion

- RI's Revaluation Process
- Other Models
  - Assessment Phase-Ins
  - “Share of the Pie” Approach
  - Levy Limit in Revaluation Years
  - California/Acquisition Model
- Discussion

# Property Revaluation

Statistical vs. Full Revaluation

A decorative graphic consisting of several horizontal lines of varying lengths and colors (teal, white, and light blue) extending from the right side of the slide towards the center.

# Introduction

- RIGL 44-5-11.6 requires local City/Town Tax Assessor's to plan and carry out triennial property revaluations. There are two types of revaluations:
  - Statistical Revaluation
  - Full Revaluation
- The rules and regulations of the revaluations include, but are not limited to the following:
  - Sales Analysis
  - Land Valuation
  - Building Valuation
  - Depreciation Schedules

# Goals of Revaluation

- Mass appraisal – two primary goals
  - Fair representation – opinion of value as of a certain date
  - Systematic process – similar properties will end up paying similar tax bills
- After developing a model, assessing it against the market sales, and then going out in the field and applying it consistently to the neighborhood, we end up with an opinion of value. We strive to get uniform assessments, resulting in fairness and compatibility amongst similar properties.



# Types of Revaluations

- A full “measure & list” of each and every property takes place in a ***Full Revaluation***.
- In a ***Statistical Revaluation*** the data that was previously collected/maintained by the Assessor’s Office is used again in the valuation.
- It is important to note that the valuation side, whether a full or statistical revaluation, is *exactly the same*.

# Sales Analysis

- All sales need to be analyzed carefully. The Assessor should obtain as much information as possible about the circumstances of each sale.
- To claim a sale as “valid,” the Assessor must verify that it was a true “arms-length” transaction and that the price paid was the true price.
- Once all sales have been verified, the “arms-length” sales can be used in developing models.
- Those models can then be applied to the properties and a Ratio Study is then conducted.

# Land Valuation

- Size: Amount of square footage; buildable space
- Current Use: Zoning does determine use, but you may have a property that is legally zoned for commercial but it used as residential. During valuation, we have to take into account its “highest and best use.”
- Neighborhood: Each neighborhood requires different adjustments to reflect the market.
- Local adjustments: Within each neighborhood, specific lots may have different attributes. For example, my house could have water views, but my neighbors does not. The local adjustment allow for modifications to the standard neighborhood model.

# Building Valuation

- Size: Total square footage
- Use: How many bedrooms? Baths? Retail vs. Office, etc.
- Quality: High-end vs. low-end construction
- Condition: How the property has been maintained/remodeled over the years

Two identical buildings could have been built 20 years ago, but today one is used as a 4 family house, and the other a 3 family with a retail store on the first floor. We have to take into consideration it's current use and value accordingly.

# Depreciation Schedules

Depreciation is a table created that represents the loss of value of to a property based on its age and condition. Once a property gets over 20 years old, condition is more important than the age.

For instance, you can have a property that is 200 years old that is immaculate, and a 20 year old building that is in bad shape and not at all maintained. Condition is very critical.

The law is written to say that properties are assessed based on their value in the market. If a property is in better shape, it will sell for more money therefore it does have a higher value. Those are the limitations we have to work with.

# Assessor's Office Procedures

In Non-Revaluation Years

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# Real Estate Certification

- Each year, the Assessor's Office is responsible for certifying the Tax Roll. Prior to doing so, the following processes need to take place:
  - Appeals
  - Ownership/Exemption Maintenance
  - Building Permits
  - Lot Alterations

# Appeals

- Once a tax roll is certified and the tax bills are mailed, owner's have a right to appeal their taxes.
- We typically have a few hundred appeals each year which the Appraisers must review and determine if a change is necessary.
- Revised bills need to be mailed after a change.



# Ownership/Exemption Maintenance

- Throughout the year, ownership records need to be updated/maintained.
- There are three Deed Readers who read all of the deeds recorded and then transfer ownership.
- At the time of transfer, a property is reviewed for the exemptions it current has on file. Typically, they are removed upon transfer.
- New owners receive notice asking them to re-apply (owner-occupied tax rate, veterans, elderly, etc.)
- Properties are also reviewed for their possible tax exempt status.

# Building Permits

- Once the Appraiser's respond to all of the first appeals, they begin their work on building permits.
- Permit information is received from Inspections and Standards and uploaded into our system.
- The Appraiser's visit and inspect the properties and make adjustments to the value based on the work completed.
- Permit work must be completed by 12/31 of a given year to be included in the upcoming tax year. For example, permits need to be completed by 12/31/13 to be reflected in the 2014 tax roll.

# Lot Alterations

- Each year Planning approves various lot alterations. This typically results in the merging of two lots, or just establishing new lot lines for already existing parcels.
- Our office needs to inspect and verify the lots and then re-assess as necessary.
- There are typically 100+ alterations each year.
- The City GIS maps also need to reflect the new lots/dimensions.